

REINVESTMENT UPDATE

A publication of the San Diego City-County Reinvestment Task Force (RTF)

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Reinvestment Update is a publication of the San Diego City-County Reinvestment Task Force. The Task Force's mission is to "spur private and public financing of affordable housing and economic development activities in those communities experiencing disinvestment."

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Councilman Anthony Young is new Co-Chair of the RTF

Councilman Anthony (Tony) Young has been appointed as the new Co-Chairman of the RTF. Tony was City Councilman Charles Lewis', Chief-of-Staff. He was a public school teacher at O'Farrell and Muirlands Middle Schools. He was also a National AVID Presenter. Tony was a Legislative Aid for former Supervisor Leon Williams and Interned with Congressman Jim Bates. He worked as an Urban League Gang Prevention Specialist and an Employment Program Director for Able-Disabled Advocacy. He was Counselor for Abused Children at Hillcrest Receiving Home.



Tony grew up in Valencia Park and graduated from Morse High School. Tony received his B.A. from Howard University on a full scholarship in Socio-Economics. He also earned a Teaching Credential from University of San Diego on a full academic scholarship. Tony and his wife, Jacqueline, live in Valencia Park with their children. Tony and his wife are members of Bethel AME.

The San Diego Capital Collaborative raises \$60 million for the Smart Growth Fund

The San Diego Capital Collaborative ("SDCC") in conjunction with Phoenix Realty Group successfully raised sixty million dollars initial capitalization of the \$90 million San Diego Smart Growth Fund. An additional \$30 million will be raised within the next ninety days, with potential investors being banks and insurance companies. The initial investment of \$60 million comes entirely from the California Public Employees Retirement System (CalPERS). The fund will provide housing for middle-income households and community revitalizing retail projects in urban neighborhoods across San Diego County. The fund's equity will be leveraged to provide over \$500 million of residential and commercial development. The SDCC and the San Diego Smart Growth Fund is the only entity of its kind in San Diego County and was created by the RTF.



Founded by the RTF, the SDCC is an independent, financially self-sufficient 501 (c) (3) not-for profit organization operating in San Diego County. The

SDCC's mission is to sponsor and facilitate private and public investments in emerging and underserved neighborhoods of San Diego County that produce market rate risk adjusted returns to investors, and promote stable, economically and socially diverse communities. The SDCC's vision is to emerge as the sustainable model that overcomes old, unwarranted and unsubstantiated perceptions of risk by proving that intelligent investments in low to moderate-income communities can profitably transform neighborhoods without causing displacement.

The SDCC and the Smart Growth Fund is the result of the RTF's objective to develop strategies for reinvestment. The effort started over 7 years ago in April of 1998 with the San Diego Community Development Trust Corporation research which raised the possibility of creating an equity fund to benefit low to moderate income communities of San Diego County. The Comprehensive Credit Needs Assessment produced by the RTF in October of 1999 identified an unmet equity capital need. The RTF then made linkages with agencies developing similar funds in Los Angeles and San Francisco Bay area to gain from their experiences.

In May 2001, the RTF proposed to evaluate the feasibility of establishing an equity capital fund for San Diego region. The approval was part of the overall RTF business plan. Between May of 2001 and September of 2002 the RTF applied for grants and received \$162,500 in funding to develop a work program for an experienced consultant. The RTF designed the feasibility study and a request for proposal (RFP), distributed nationally, to solicit research firms for the study. An advisory committee was established to oversee the process and to interview and recommend a candidate to the RTF and the San Diego Housing Commission. Economic Innovation International and its local San Diego partner, Economic Research Associates were hired and signed a contract in July of 2002.

SOURCES OF FUNDS SAN DIEGO CAPITAL COLLABORATIVE: FEASIBILITY STUDY	
Sources	Contributions
US Bank	\$5,000
San Diego National Bank	\$5,000
California Federal Bank	\$10,000
FNMA	\$15,000
County CDBG	\$25,000
Wells Fargo Bank	\$20,000
Washington Mutual Bank	\$35,000
Bank of America	\$7,500
City CDBG (FY03)	\$40,000
TOTAL	\$162,500

The RTF advisory committee reviewed a draft feasibility study on September 17, 2002. Revisions were suggested and incorporated into the final document delivered on November 1, 2002. Based on the results of the credit needs assessment study and equity fund feasibility study, which demonstrated the critical need and shortage of capital for affordable housing and Smart Growth development in San Diego city and county, the RTF determined that a specialized financial intermediary providing private equity capital to revitalize these underdeveloped neighborhoods was an essential part of the solution to the crisis.

On April 29, 2003, the RTF formed the non-profit umbrella entity SDCC. The SDCC was created to be an independent entity with no legal ties to the RTF. The SDCC's long-term goal is to establish a Family of Private Investment Funds (as subsidiaries) targeting low and moderate-income neighborhoods. For its first fund, the SDCC selected the Smart Growth Fund for several reasons:

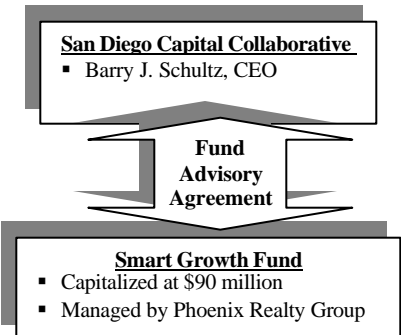
- No entity in San Diego County is doing what the SDCC and the Smart Growth Fund have been established to do.
- The San Diego region is in a severe housing crisis with only the top 10% of San Diego population able to afford a median priced home. This crisis is particular acute in low to moderate-income neighborhoods.
- Due to an unwarranted perception of risk and strong investment opportunities in suburban markets, equity capital is in extremely short supply in these low to moderate-income markets. However, there is adequate supply of debt capital from traditional financial institutions for every proposed product type other than mixed-use development.
- As a result of geographic constraints, redevelopment will be an important part of the future growth of San Diego County. The SDCC wants to ensure that redevelopment creates economically and socially diverse communities.
- The SDCC's research revealed that unless there is a specialized financial intermediary targeting capital and bringing local knowledge and creativity to these underserved markets, "smart" development would not occur.

The SDCC is designed to ensure that resources remain focused on the low and moderate-income communities to which they are targeted while simultaneously protecting the Fund Managers, managing the Smart Growth Fund, from any interference on investment decisions behind a secure fire wall; and to measure and report publicly on the success of the Fund in producing returns for both bottom lines. The initial board of directors of the SDCC included

Robert Adelezzi as the President, Mitchell Thompson, then of the MAAC Project, as the Vice President and Secretary, and Monica Edwards of Citibank as the Treasurer.

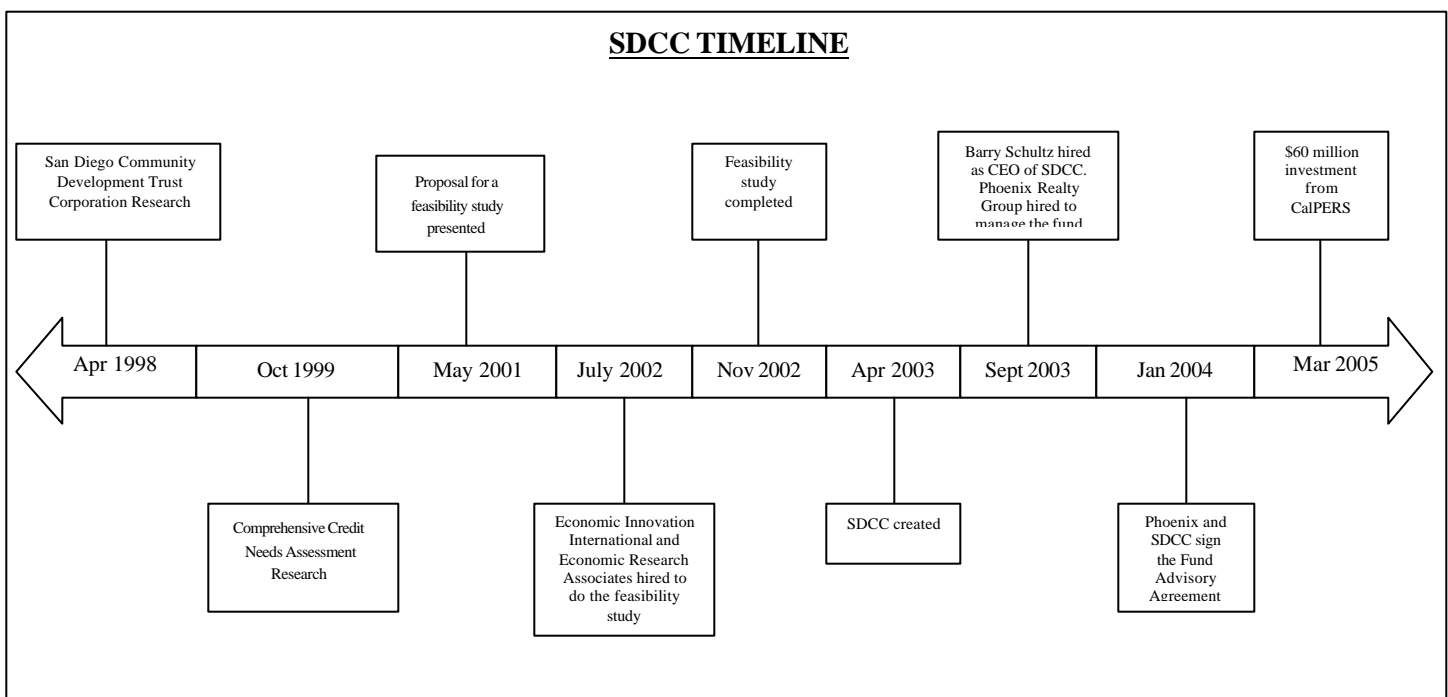
The RTF wrote a request for proposal for fund management of the Smart Growth Fund and distributed to over 250 potential fund managers across the USA. The responses were reviewed by the RTF and three finalists were invited to present to a panel of judges comprised of the initial board of directors of the SDCC, community interest groups, potential investors and the RTF. The panel after much deliberation chose Phoenix Realty Group to manage the Smart Growth Fund in September of 2003.

The SDCC board selected Barry J. Schultz as the Chief Executive Officer of the SDCC after deliberating over several candidates. Barry came on board as the CEO in September of 2003 and was given the task to work out a Fund Advisory Agreement with Phoenix Realty Group. In January 2004, the SDCC and Phoenix signed the Fund Advisory Agreement outlining the scope of services for both parties. This legal agreement defines the relationship between the SDCC, as fund advisor, and Phoenix, the fund manager. The SDCC and Phoenix, leveraging on the relationships established by the RTF, then started the process of raising investments to capitalize the Smart Growth Fund.



The Smart Growth Fund sets a new national standard of for-profit and not-for-profit fund focusing on urban emerging markets. The Smart Growth Fund is a double bottom line fund, which means it offers investors both a socially responsible investment opportunity combined with a competitive market yield. The Fund will enter the development process early, joining with community and mainstream developers to assist in nurturing sound real estate projects that might not otherwise overcome the barriers to development in the urban core. Combining a ready and consistent source of capital with a creative focus on targeted markets, the Fund has the potential to be the catalyst to drive the revitalization of San Diego's urban neighborhoods, and to benefit existing residents.

The ongoing task of the RTF will be to regularly monitor the achievement of the social goals and fulfillment of the Community Reinvestment Act (CRA) guidelines. In addition, the RTF will investigate potential for new funds, beyond the Smart Growth Fund, to address unmet capital needs in the low to moderate-income communities of the San Diego city and county.



Chula Vista/ National City puts a hold on Payday Lending

The City Councils of these two cities have both approved a temporary hold on the opening of any new payday lending outlets on the basis that they contribute to the economic downturn of the communities in which they are located. The council votes were both prefaced by comments that the high level of interest charged by the check cashing stores was excessive and were a financial disincentive for persons forced by circumstances to use the facilities.

The National City moratorium has been in effect for nearly a year. City Attorney Rudolph Hrdacky is expected to present a permanent ordinance that will require payday lenders to report loan activity, particularly with military customers, and modify excessive interest rates. This proposed ordinance will set a national precedent for municipal response to payday lending abuses.

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